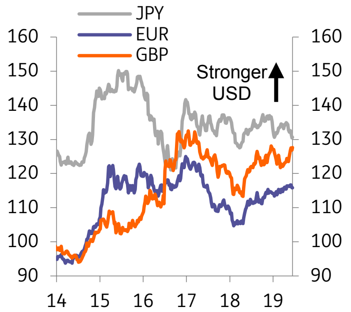
14 June 2019

FX Strategy

FX Talking

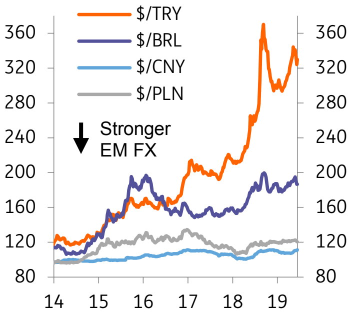
The beginning of the end of the dollar's rally

USD/Majors (30 Jan 09=100)



Source: Macrobond , ING

USD/EM (30 Jan 09=100)



Source: Macrobond, ING

Now that the global trade war has resonated with the Fed it seems appropriate to start talking about whether the eighteen month dollar rally is over. Our house view of an escalation of the trade conflict over coming quarters – and more importantly at least two cuts from the Fed – suggest USD/JPY has indeed peaked.

However, we doubt EUR/USD is able to take advantage of the soft dollar environment. The ECB looks very close to easing again – potentially in September with a deposit rate cut and re-starting asset purchases geared more towards corporate debt. Brexit and Italian politics suggest EUR/USD may remain trapped in a 1.10-15 range until year-end.

We are also revising down our GBP numbers this month. EUR/GBP can trade to 0.92 and possibly to 0.95 this autumn as investors digest the trade-off between a No Deal Brexit and early elections. Relative value trades within Europe will also be of interest, where the SNB will struggle to contain safe haven CHF inflows, while the SEK under-performs.

We expect Chinese authorities to pull out all the stops to keep USD/CNY trading below 7.00. Yet escalating trade wars and the technology slump will mean that Asian FX remains fragile. Counter-productively Washington ends up with weaker Asian currencies.

Latam FX may be best placed to weather the global trade storm. Social security reform can trigger a re-rating of the BRL this summer (USD/BRL to 3.30/3.40). Challenges lie ahead for Mexico, but tight policy rates suggest the MXN can outperform its forwards.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.12	→	108	→	1.24	↓
3M	1.12	↓	105	↓	1.22	↓
6M	1.15	↑	103	↓	1.25	↓
12M	1.17	↑	100	↓	1.33	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	↑	25.70	↑	4.27	↑
3M	0.92	↑	25.80	↑	4.28	↑
6M	0.92	↑	25.90	↑	4.30	→
12M	0.88	↓	26.30	↑	4.31	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.90	→	19.20	→	3.70	↓
3M	6.95	↑	19.50	↑	3.40	↓
6M	6.90	→	19.40	↓	3.60	↓
12M	6.85	↓	19.50	↓	3.70	↓

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	0.1	-3.1	3.0	1.8	-2.5	-0.2
%YoY	-4.2	-1.8	1.4	3.5	-7.1	2.6
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-1.1	1.3	-1.3	2.3	3.3	0.5
%YoY	0.8	14.5	4.3	66.0	8.2	27.0

Source: Bloomberg, ING

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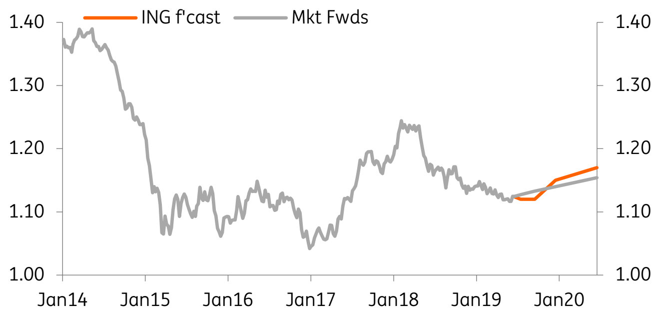
Developed markets

EUR/USD

Beauty contest between the USD and EUR evens up

Current spot: 1.12



Source: Bloomberg, ING

- The dramatic decline in US rates over the last month has taken some of the shine off the dollar. Our team now looks for Fed rate cuts in Sep and Dec, though this should be an insurance move rather than the start of a major easing cycle. However, the fact that US trade wars are hitting home – and that we don't expect a cessation in the conflict until early 20 – has harmed the dollar.
- Narrowing rate differentials would normally mean a higher EUR/USD. Yet i) we think US rates need to fall another 25-50bp to make differentials relevant again and ii) Europe has its challenges
- Those European challenges mean that the ECB could cut rates & re-start QE in September – preventing EUR/$ breaking above 1.15.

ING forecasts (mkt fwd)	**1M** 1.12 (1.127)	**3M** 1.12 (1.1331.12)	**6M** 1.15 (1.140)	**12M** 1.17 (1.154)

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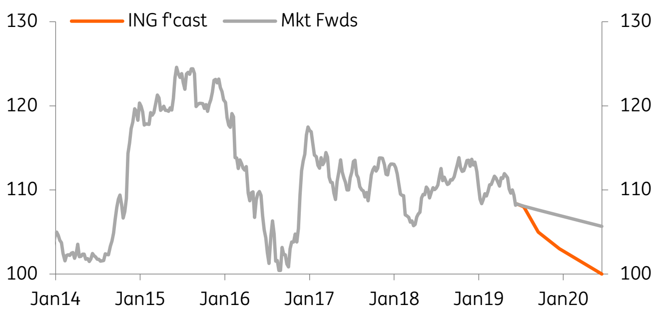
USD/JPY

The clouds are building over USD/JPY

Current spot: 108.34



Source: Bloomberg, ING

- In an environment of Fed easing during a global trade war we would expect USD/JPY to lead the dollar decline. The BoJ's ability to intervene and sell JPY looks very limited since Japan is already on US Treasury's monitoring list and fulfils two of the three criteria for being designated a currency manipulator.
- The BoJ's nominal trade weighted JPY measure is pressing 105 and could easily hit the 2016 Brexit highs of 110 later this year if global trade deteriorates. That would put USD/JPY at 102/103.
- It looks like Japan will see a VAT hike in October and the BoJ threatening easier policy either by a lower policy rate (now -0.1%) or by lowering the 10 year JGB yield target of 0% +/- 10bp.

ING forecasts (mkt fwd)	**1M** 108.00 (108.1)	**3M** 105.00 (107.6)	**6M** 103.00 (106.9)	**12M** 100.00 (105.7)

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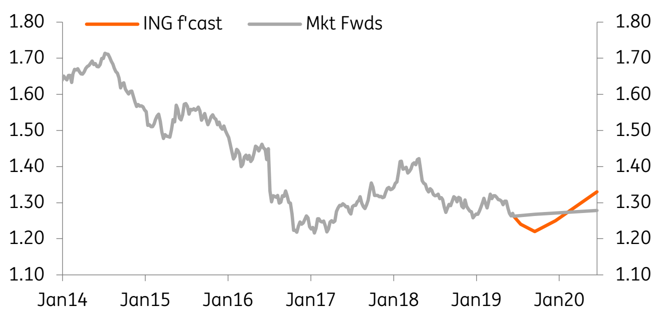
GBP/USD

Heading towards early elections

Current spot: 1.26



Source: Bloomberg, ING

- We expect GBP to stay under pressure in the near term as Tory leadership favourite, Johnson, retains his stance of taking the UK out of the EU on 31 October – with or without a deal. This should be the story at least until he secures the keys to 10 Downing Street when Tory members return their ballots by 22 July.
- Of the array of possibilities thereafter, our team attach the highest probability (35%) to early elections, probably in December. Until the possibility of a socialist government is dismissed, we would expect GBP to stay pressured (low 1.20s)
- Given Fed & ECB easing, trade wars and Brexit, the BoE won't have a chance to hike this year – but could tighten in 1Q20.

ING forecasts (mkt fwd)	**1M** 1.24 (1.26)	**3M** 1.22 (1.27)	**6M** 1.25 (1.27)	**12M** 1.33 (1.28)

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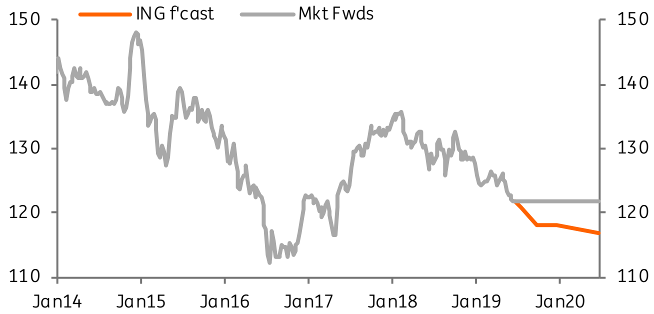
EUR/JPY

Sub 120 now in the forecast

Current spot: 121.8



Source: Bloomberg, ING

- We now have sub 120 levels in our EUR/JPY profile, with the ECB expected to introduce fresh stimulus later this summer. Our baseline view of tariffs extending to the entire range of Chinese exports to the US and the introduction of auto tariffs on Europe warns of a difficult environment for risk later this year.
- The 28-29 June G20 summit in Osaka should set the tone for risk markets in 3Q20, where we do not see a trade deal struck.
- We expect the JPY to adopt the dollar's mantel as the preferred safe haven currency as Japan's large net foreign asset position comes to the fore. US-China trade tension could also spill into China's reduction of US Treasury holdings – sending USD/JPY lower.

ING forecasts (mkt fwd)	**1M** 121.00 (122)	**3M** 118.00 (122)	**6M** 118.00 (122)	**12M** 117.00 (122)

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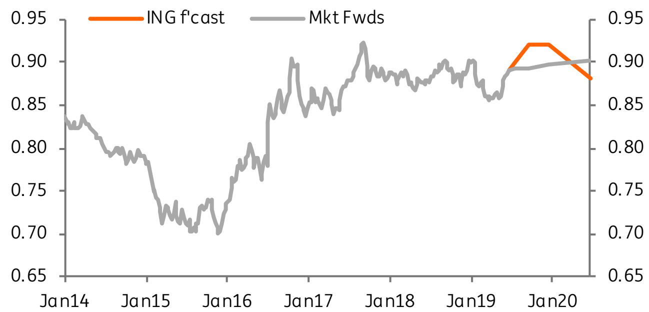
EUR/GBP

Revising the profile higher

Current spot: 0.89



Source: Bloomberg, ING

- This month we are revising our EUR/GBP profile higher on the back of a poor outlook for GBP. UK politics looks set to become very messy into the October window and the lack of transparency will surely weigh on UK activity and investment.
- A probabilistic assessment (looking at each UK scenario's probability and its impact on EUR/GBP) suggests EUR/GBP should be trading about 0.91 later this year – although early elections could easily mean that EUR/GBP overshoots to 0.95.
- Main risk to our bullish view is probably the ECB front-loading monetary stimulus (QE with corporate bonds) & fears over Italy's EZ future as Lega's Salvini tries to push through fiscal stimulus.

ING forecasts (mkt fwd)	**1M** 0.90 (0.89)	**3M** 0.92 (0.89)	**6M** 0.92 (0.90)	**12M** 0.88 (0.90)

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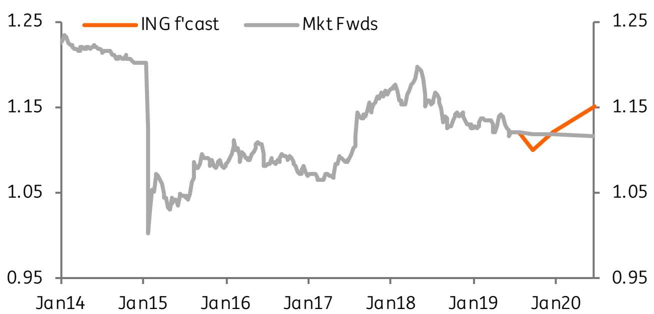
EUR/CHF

A long, hot summer for the SNB

Current spot: 1.12



Source: Bloomberg, ING

- An escalation in trade wars, tension in the Middle East and most importantly the prospect of easier ECB policy suggests the SNB will be increasingly busy this summer in preventing CHF strength. Expect the 1.12 level to stay under pressure in EUR/CHF and we see a window for 1.10 around late summer when Italian budgetary discussions come to a head.
- SNB still view CHF as 'highly valued' – it's near its all-time highs on a nominal basis and about 5% off its highs on a real basis. Scope for SNB rate cuts look limited, so more intervention will be needed
- Remember that it was the prospect of ECB QE that caused the SNB to abandon the EUR/CHF floor in January 2015.

ING forecasts (mkt fwd)	**1M** 1.12 (1.12)	**3M** 1.10 (1.12)	**6M** 1.12 (1.12)	**12M** 1.15 (1.12)

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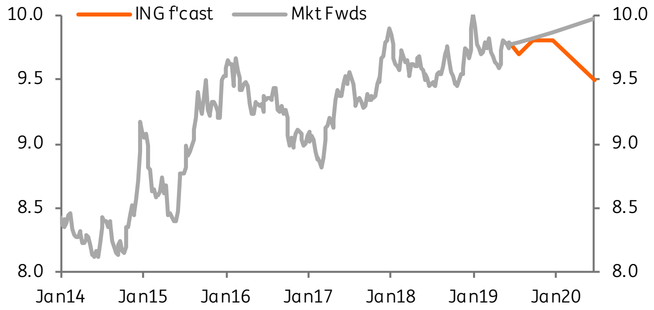
EUR/NOK

NB hikes to lead to NOK strength vs SEK, but not vs EUR

Current spot: 9.77



Source: Bloomberg, ING

- The NB is set to continue bucking the trend of G10 central banks as the solid economy, positive output gap and weaker NOK will: (a) cause the central bank to hike in June; (b) keep the forward guidance for further tightening in place.
- However, as was the case so far this year, the hawkish NB (even if accompanied by higher oil prices) is not enough to cause a persistently strong NOK vs EUR. At this point, and like other high beta currencies, NOK is dragged down by the concerns about the trade wars and weaker global growth.
- With the non-negligible risk of US imposing tariffs on China this summer, hawkish NB should translate into NOK outperformance vs SEK rather than EUR. Risks to EUR/NOK remain on the upside.

ING forecasts (mkt fwd)	**1M** 9.70 (9.79)	**3M** 9.80 (9.82)	**6M** 9.80 (9.87)	**12M** 9.50 (9.98)

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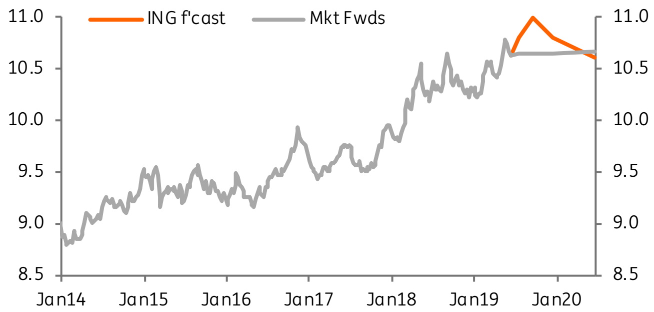
EUR/SEK

Still more SEK weakness to come

Current spot: 10.64



Source: Bloomberg, ING

- We see the late May SEK strength as positioning driven and a correction from oversold territory. This should prove temporary and the bearish case for SEK remains fully in place.
- The domestic economy remains weak (as prior house price declines weigh on consumption and investment) and with CPI ex-energy below the 2% target, there is a very limited case for Riksbank hikes – we don't expect any more hikes during this cycle
- This means that the unattractiveness of a low yielding, high beta SEK remains in place. We see high risk of EUR/SEK hitting 11.00 this summer as the likely escalation of trade wars is a negative for the currency of an open economy like Sweden. Any boost to SEK from a recovery is global trade is a very distant possibility.

ING forecasts (mkt fwd)	**1M** 10.80 (10.64)	**3M** 11.00 (10.64)	**6M** 10.80 (10.65)	**12M** 10.60 (10.67)

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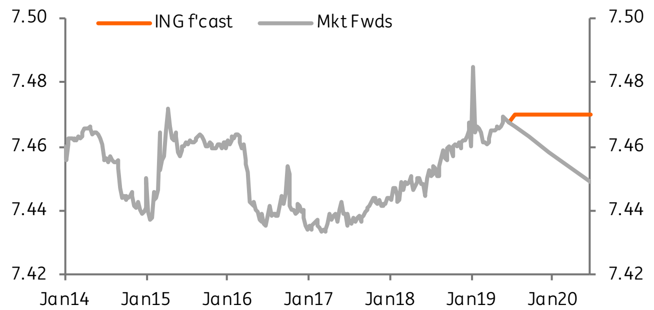
EUR/DKK

Fading DKK safe haven properties

Current spot: 7.467



Source: Bloomberg, ING

- EUR/DKK tested the 7.4700 level in May as a large domestic bank sold a significant amount of kroner as a part of its hedging plan. The cross is unlikely to move above 7.4700 as such DKK depreciation would likely to be met with DN FX interventions.
- With the likely increase in DKK excess liquidity due to the Danish government decision to reduce its cash deposits with DN, the upside pressure on EUR/DKK should remain in place, making the FX interventions a more re-occurring event through 2019.
- Hence, and despite the series of risk events ahead of us (escalation in trade wars and possible EZ auto-tariffs, potential early elections in Italy in 2H19), the scope for DKK strength seems limited.

ING forecasts (mkt fwd)	**1M** 7.47 (7.466)	**3M** 7.47 (7.463)	**6M** 7.47 (7.458)	**12M** 7.47 (7.449)

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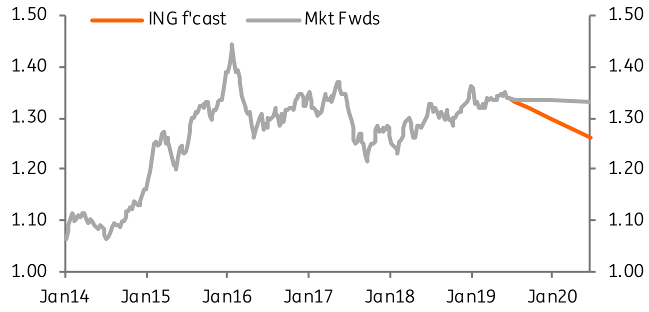
USD/CAD

BoC and oil to keep CAD supported

Current spot: 1.338



Source: Bloomberg, ING

- The recent BoC upbeat stance on the economy is likely to be supported ahead by a tight labour market, solid household spending and hopes of an imminent ratification of the USMCA.
- Despite a 65% market-implied probability of a cut by the end of 2019 we expect the BoC to keep rates unchanged. Given the prospect of monetary easing by the Fed, the USD-CAD rate differentials should continue to move in favour of the loonie.
- The OPEC+ meeting may be delayed to early July but should still signal an extension of the output cut deal and push WTI above the 60$ level by year-end. Despite gradual unwinding of Alberta production cuts, WCS should follow global crude prices higher.

ING forecasts (mkt fwd)	**1M** 1.33 (1.34)	**3M** 1.32 (1.34)	**6M** 1.30 (1.33)	**12M** 1.26 (1.33)

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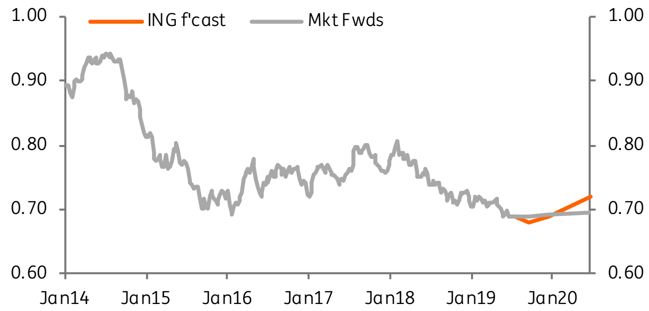
AUD/USD

Aussie to bottom out in Q3

Current spot: 0.69



Source: Bloomberg, ING

- The deterioration of US-China trade relationships are likely to remain a dampening factor for AUD. However, Chinese government is reportedly planning to fund major infrastructures which could keep demand for Australian commodities sustained. Also, iron ore and coal imports from China recently rebounded.
- Another cut by the RBA is mostly priced in by the end of Q3, while additional easing will likely depend on unemployment failing to move towards the 4.5% target. Nonetheless, the Fed's easing shift may keep the relative rate spread limited to the downside.
- All in all, we see AUD finding support below 0.68 in Q3 & then to recover as abating trade tensions trigger AUD short-covering.

ING forecasts (mkt fwd)	**1M** 0.69 (0.689)	**3M** 0.68 (0.690)	**6M** 0.69 (0.692)	**12M** 0.72 (0.694)

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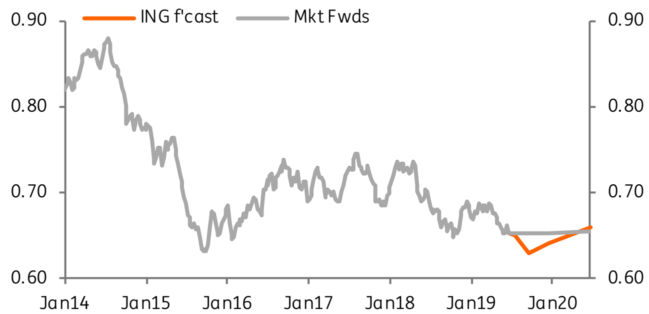
NZD/USD

RBNZ in no rush to cut more

Current spot: 0.65



Source: Bloomberg, ING

- We expect NZD to stay on a depreciating path on the back of concerns that a tariff-driven Chinese economic slowdown may hurt New Zealand agricultural exports.
- The RBNZ assistant governor recently indicated the central bank is in no rush to deliver a second rate cut, that we expect in Q3. However, 25bp of easing are already priced in by year-end and we see little room for another slump in short-term rates.
- While expecting a NZD rebound from Q4, the relatively stronger Australian economic outlook suggests investors may favour AUD longs when positioning for a recovery in trade-related sentiment. In turn, AUD/NZD could approach the 1.090 area by 2Q20.

ING forecasts (mkt fwd)	**1M** 0.65 (0.652)	**3M** 0.63 (0.653)	**6M** 0.64 (0.654)	**12M** 0.66 (0.655)

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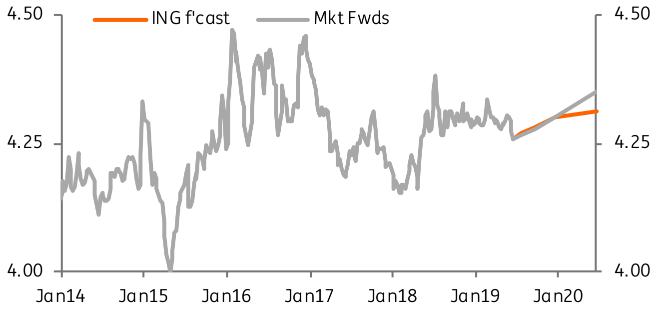
Emerging markets

EUR/PLN

Insulated by pre-election spending **Current spot: 4.26**



Source: Bloomberg, ING

- PLN outperformed CEE FX and € in recent weeks due to generous pre-election spending (1.6% of GDP). It changed the MPC bias from dovish to neutral - contrary to CEE central banks and the ECB.
- The fiscal impulse was covered by new revenues (incl. one-offs), so 2020 net borrowing needs should drop by half, hence it won't have an adverse impact on POLGBs. Deficit and borrowing needs should only rise in 2021-22 which is too distant to be POLGBs negative
- We raised our 2019 GDP forecast to 4.7% of GDP, election spend extending the consumption boom. Poland should be resilient to Eurozone slowdown as long as domestic demand there remains strong. We estimate that ¾ of Polish exports stay in the EU.

ING forecasts (mkt fwd)	**1M** 4.27 (4.26)	**3M** 4.28 (4.28)	**6M** 4.30 (4.30)	**12M** 4.31 (4.35)

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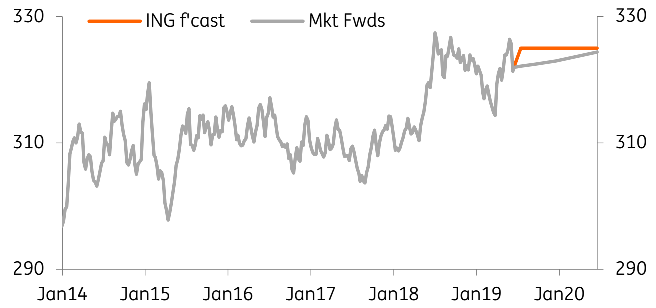
EUR/HUF

The worst for HUF is now over **Current spot: 322.0**



Source: Bloomberg, ING

- It seems that the worst for HUF is now over after the earlier-than-anticipated positioning squeeze in long EUR/HUF. Within days, HUF went from 327.5 to 320 vs EUR, an effective resistance level.
- We now see EUR/HUF stuck between two forces. First of all, for the remainder of the year some improvement in the C/A balance and the expected decline in headline CPI can take some pressure off the NBH and modestly ease the NBH's credibility challenges.
- On the other hand external factors can cause jitters in EM FX space (Brexit, trade wars, Italy, etc). Due to this dichotomy (external versus domestic factors) we see EUR/HUF trading sideways around the 325 level over the next 12 months.

ING forecasts (mkt fwd)	**1M** 325.00 (322.2)	**3M** 325.00 (322.4)	**6M** 325.00 (323.0)	**12M** 325.00 (324.4)

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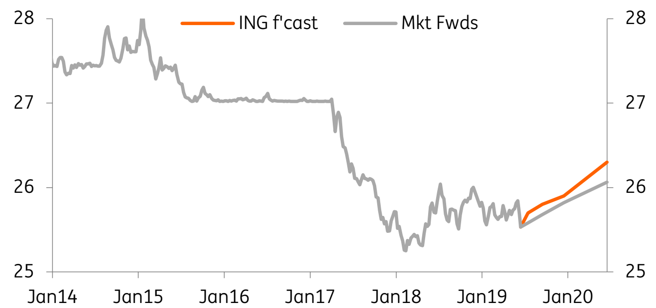
EUR/CZK

The koruna rally that is unlikely to last **Current spot: 25.53**



Source: Bloomberg, ING

- The CZK rally since late May has been largely caused by the aggressive dovish re-pricing of the Fed, the accompanying spike in EUR/USD and the increased attractiveness of CEE FX. With CNB unwilling to cut rates versus the Fed and the ECB moving towards easing, the koruna retains support
- Still, we remain negative on CZK, particularly if the US imposes tariffs on EZ car exports. The Czech economy would be one of the most vulnerable, while the saturated positioning (with CZK longs increasing over the past weeks) would facilitate CZK downside.
- As for the CNB, we expect the bank to remain on hold despite high CPI and positive data surprises, since global uncertainty will preclude the bank from tightening.

ING forecasts (mkt fwd)	**1M** 25.70 (25.58)	**3M** 25.80 (25.68)	**6M** 25.90 (25.82)	**12M** 26.30 (26.06)

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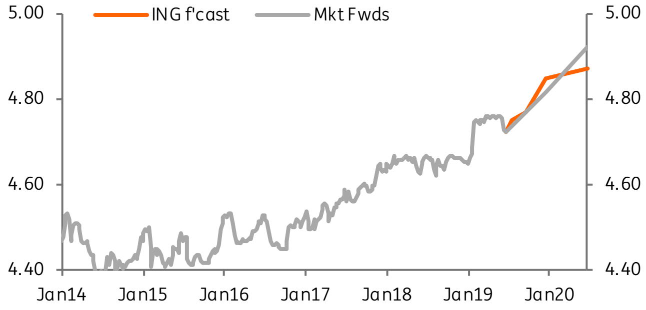
EUR/RON

Temporary stronger leu **Current spot: 4.72**



Source: Bloomberg, ING

- With the twin deficit picture unlikely to see any improvement, GDP growth in a lower gear and the heavy election calendar in 2019-2020, RON vulnerabilities are clearly on the rise. A 3-4% weaker RON on average in 2019 looks like a balanced trade-off between CPI and external trade.
- NBR's new range seems to be 4.7200-4.7700 in EUR/RON for now with another 2% shift higher likely in the second half of the year.
- Recent RON strengthening has been driven by inflows into ROMGBs after markets re-priced the outlook for the Fed, but NBR interventions are also quite possible given the unusually high volumes traded on the interbank market.

ING forecasts (mkt fwd)	**1M** 4.75 (4.74)	**3M** 4.77 (4.77)	**6M** 4.85 (4.81)	**12M** 4.87 (4.92)

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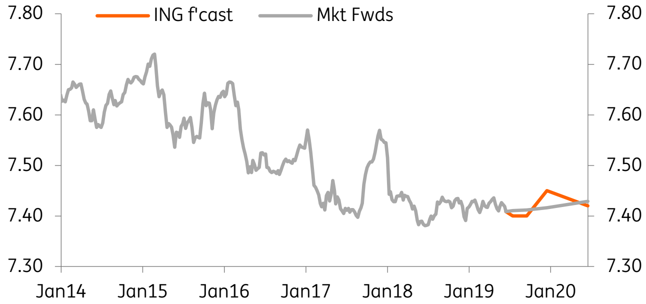
EUR/HRK

Kuna more stable as ERM-II gets closer **Current spot: 7.41**



Source: Bloomberg, ING

- EUR/HRK seems to stabilize above 7.40 with the central bank intervening near this level to fend-off HRK strength. The rise in seasonal inflows is likely to test again the central bank's tolerance for a stronger kuna.
- As an initial step for ERM-II admission, on 27 May Croatia submitted a request to the ECB for the establishment of a close cooperation between CNB and ECB pertaining to credit institution supervision within the Single Supervisory Mechanism (SSM).
- A symbolic green-light for ERM-II admission has been given on 18 May by German chancellor Angela Merkel who characterised Croatia's ambitions for euro adoption as "very realistic".

ING forecasts (mkt fwd)	**1M** 7.40 (7.41)	**3M** 7.40 (7.41)	**6M** 7.45 (7.42)	**12M** 7.42 (7.43)

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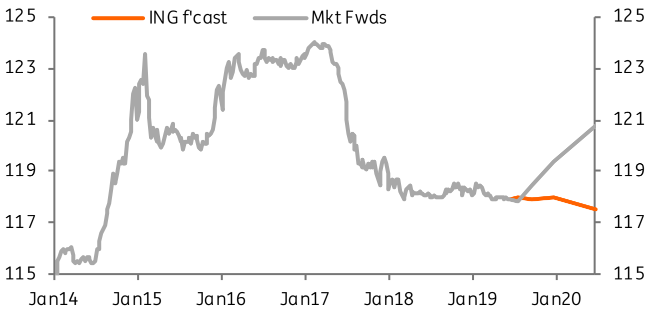
EUR/RSD

Bond inflows are pressuring the dinar stronger **Current spot: 117.9**



Source: Bloomberg, ING

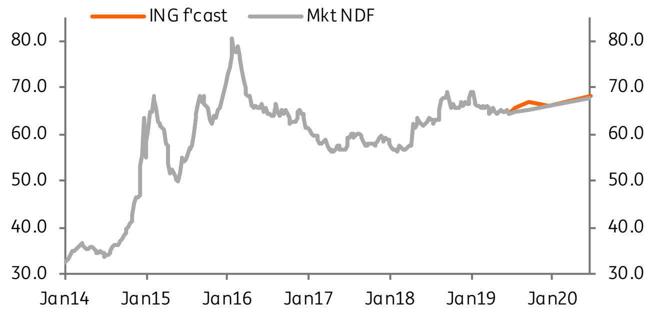
- EUR/RSD crossed below 118 despite frequent and larger FX interventions from NBS to curb RSD gains. Somewhat unusually, the NBS issued a press release report citing that bond inflows were responsible for RSD strengthening.
- The dinar touched its highest in almost five years on 5 June when the official fixing printed 117.8834.
- We maintain our forecast for the EUR/RSD to float in a relatively tight range around 118.0 for the rest of the year. We expect as well the key rate to remain on hold at 3.00% though we acknowledge that the case for rate cuts is building again.

ING forecasts (mkt fwd)	**1M** 118.00 (117.9)	**3M** 117.90 (118.5)	**6M** 118.00 (119.4)	**12M** 117.50 (120.8)

Valentin Tataru, Bucharest +40 31 406 89 91

USD/RUB

Short-term risks fail to materialize thanks to OFZ inflows **Current spot: 64.33**



Source: Bloomberg, ING

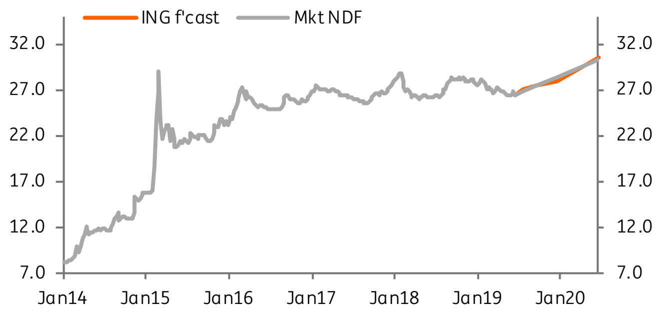
- RUB performance is stronger than expected, as local state bond market (OFZ) keeps seeing US$3-4bn monthly inflows on improved expectations on Fed and CBR, which are now seen to have returned to the easing cycle (CBR delivered dovish cut to 7.50%).
- Short-term fundamental support to RUB is now waning as current account surplus is down from US$11bn/month in 1Q19 to $8bn per month in Apr-May, and is facing further pressure in June due to dividend payments to non-residents which may reach $9bn.
- Long-term challenges include potential budget easing, as Minfin's recent decision to allow investing state FX savings locally can mean up to RUB3.5tr (3% GDP) extra RUB injections in 2020.

ING forecasts (mkt fwd)	**1M** 65.50 (64.61)	**3M** 67.00 (65.15)	**6M** 66.00 (65.96)	**12M** 68.00 (67.53)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Political tensions elevated **Current spot: 26.45**



Source: Bloomberg, ING

- UAH weakened by around 3% in the end of May – following the announcements of snap parliamentary elections due July 21 and IMF postponing talks until the new government is formed – forcing NBU to become net FX seller for the second time in 2019 selling US$43m in late May. By now, UAH somewhat recovered, but remains weaker than in early May.
- CPI accelerated in May to 8.8% YoY, further exceeding NBU's target range 6.5% ±2ppt mostly due to the rise in tariffs and food prices. However, the key rate of 17.50% still has room for cuts.
- Mid-term UAH performance will remain affected by President-Parliament relations, which so far appear jittery.

ING forecasts (mkt fwd)	**1M** 27.00 (26.77)	**3M** 27.50 (27.48)	**6M** 28.00 (28.40)	**12M** 30.50 (30.32)

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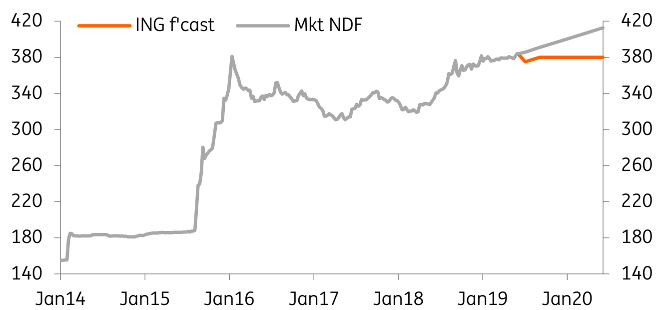
USD/KZT

Watch out for China and local political transition **Current spot: 383.9**



Source: Bloomberg, ING

- Falling oil prices, China-US tensions and Kazakhstan's internal political transition pushed KZT weaker beyond the important 380 level towards the all-time low of 385 KZT per USD.
- Inflation accelerated to 5.3% YoY in June after 4.9% in May (still within the NBK target range of 4-6%). Continuous tenge weakness and indexations of social payments and state sector salaries in June may further add to upward inflationary pressure.
- K-J Tokayev won the presidential elections receiving 71% of votes amid continuous protests that may have negatively affected investor sentiment. Risks related to political transition are the key watch factor for the mid-term.

ING forecasts (mkt fwd)	**1M** 375.00 (385.6)	**3M** 380.00 (390.9)	**6M** 380.00 (398.0)	**12M** 380.00 (412.6)

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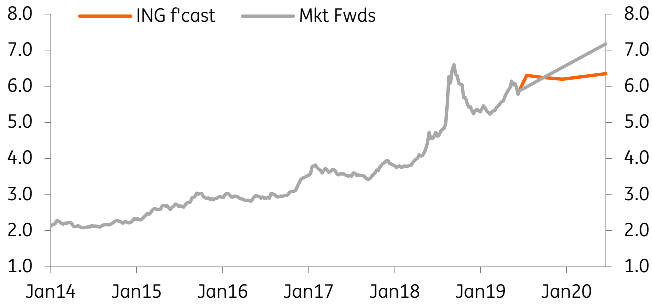
USD/TRY

TRY stability to remain key variable for the CBT

Current spot: 5.88



Source: Bloomberg, ING

- The CBT will likely maintain the current policy stance and avoid any premature policy rate adjustment to maintain price stability and support financial stability.
- The continuation of the supportive global backdrop with more accommodative global CBs would increase possibility of an earlier easing move. Any renewed currency volatility impacting the disinflation trend will remain a key variable for the CBT.
- TRY has appreciated significantly recently due to risk-on mode, lower oil prices and positive news on geopolitics in the context of the Trump-Erdogan phone call. In the near term, TRY will likely remain volatile on the back of domestic and geopolitical issues.

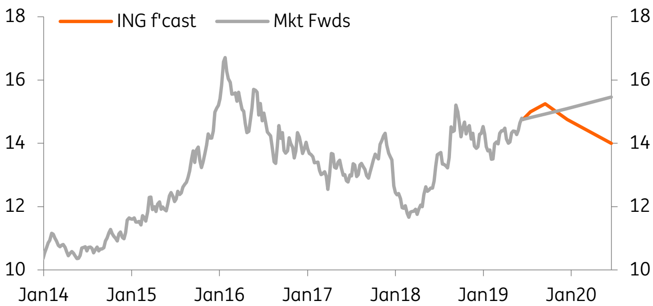
ING forecasts (mkt fwd)	**1M** 6.30 (5.99)	**3M** 6.25 (6.21)	**6M** 6.20 (6.53)	**12M** 6.35 (7.17)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Perfect storm limits SARB's ability to cut rates

Current spot: 14.76



Source: Bloomberg, ING

- The ZAR quickly gave up its post-election gains as the combination of: a) a re-escalation in the US-China trade war and b) concerns of Ramaphosa's cabinet and graft allegations started to weigh. We're probably more worried about the former, where a further escalation in trade wars and USD/CNH pressing 7.00 are likely to keep the ZAR under pressure – eg, USD/ZAR to 15.25/50.
- The SARB actually came close to cutting rates in late May – three voting for a 6.75% hold and two for a 25bp rate cut. Lower CPI and inflation expectations are driving the dovishness but we're worried that ZAR weakness will not allow a cut this year.
- We doubt Fed easing helps EMFX, while the trade war is raging.

ING forecasts (mkt fwd)	**1M** 15.00 (14.81)	**3M** 15.25 (14.93)	**6M** 14.75 (15.10)	**12M** 14.00 (15.46)

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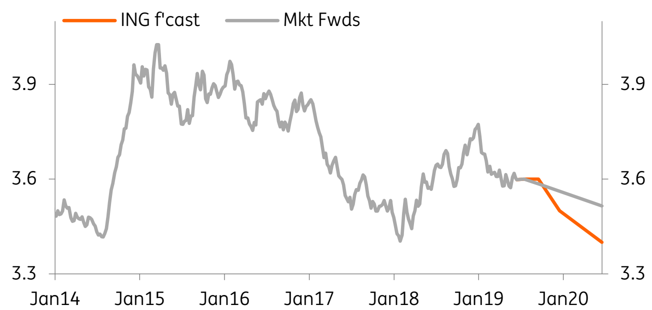
USD/ILS

BoI is intervening again

Current spot: 3.60



Source: Bloomberg, ING

- FX reserve data for May showed that the BoI spent a small US$50m on FX intervention, presumably buying US$/ILS in the 3.55/57 area. The justification will be that nominal appreciation in the ILS is delaying the return of inflation to 2% - the mid-point of the BoI's inflation target. Tradable inflation (38% of the total CPI basket) is still struggling to get back into positive territory.
- With the Fed set to embark on an easing cycle, we'd expect the BoI to step up FX intervention. Given difficult international conditions, we doubt BoI will want to see sub 3.50 levels in $/ILS.
- Typically ILS is quite resistance to tension in the Middle East, suggesting Saudi-Iran tensions don't materially weigh on ILS.

ING forecasts (mkt fwd)	**1M** 3.60 (3.60)	**3M** 3.60 (3.58)	**6M** 3.50 (3.56)	**12M** 3.40 (3.51)

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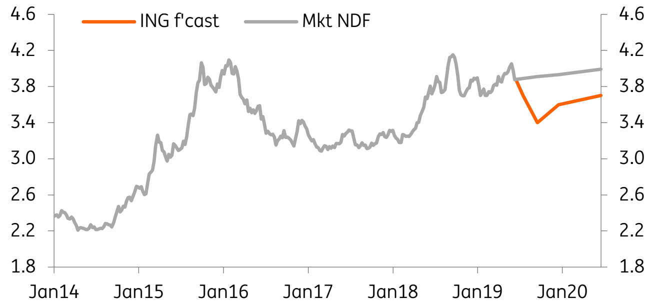
LATAM

USD/BRL

Crunch time for the social security reform

Current spot: 3.88



Source: Bloomberg, ING

- The social security reform debate is reaching its final stage in Lower House, with the first-round vote by the entire House possibly taking place within the next month, before July 15.
- The political momentum has improved, with support for the reform broadening, but pressure by special-interest groups keeps the risk of erosion in the projected savings from the reform high.
- Thanks to the improved political momentum, the BRL has outperformed recently, but uncertainty about the reform's approval should keep volatility high. Underweight investor positioning suggests that decisive progress in the reform's approval could trigger an overshooting, towards 3.30-3.40.

ING forecasts (NDF)	**1M** 3.70 (3.89)	**3M** 3.40 (3.91)	**6M** 3.60 (3.93)	**12M** 3.70 (3.99)

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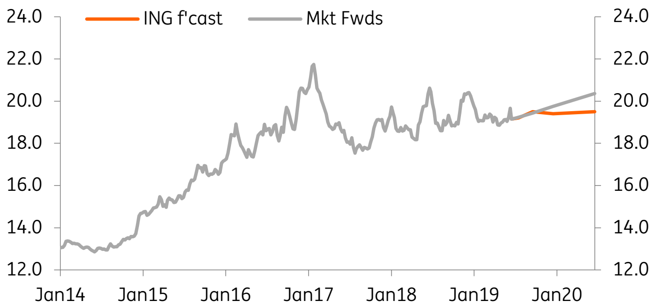
USD/MXN

External headwinds intensify

Current spot: 19.15



Source: Bloomberg, ING

- Despite intensifying headwinds over the past month, the MXN remains a standout outperformer YTD. Future prospects have deteriorated however, with the renewal of external trade uncertainties and the faster-than-expected ratings downgrades.
- Those uncertainties should extend Banxico's caution and delay a dovish shift for monetary policy, with high rates acting as the chief FX anchor.
- Recent developments deepened concerns about Mexico's economic growth outlook, and the risk of PEMEX-related financial instability has increased, amid potential forced-selling triggered by a possible classification as "junk" by rating agencies.

ING forecasts (mkt fwd)	**1M** 19.20 (19.24)	**3M** 19.50 (19.44)	**6M** 19.40 (19.75)	**12M** 19.50 (20.35)

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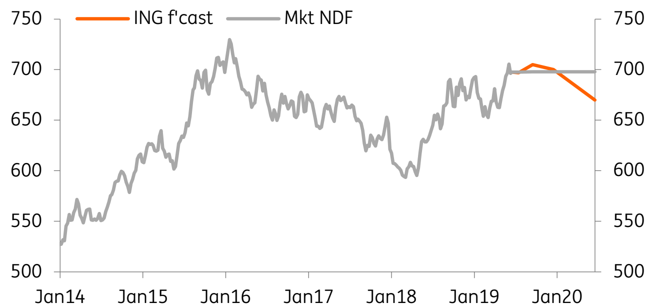
USD/CLP

Trade war concerns continue to drive CLP outlook

Current spot: 697.73



Source: Bloomberg, ING

- As a small open economy, with an export basket heavily skewed towards copper, the CLP has traded with a persistent weakening bias in recent months, consistent with the sell-off in copper prices seen as a result of lingering trade-war concerns.
- Lack of progress in the US-China trade-war impasse in the coming months should extend that weakening bias.
- While external drivers dominate, local macro trends have also become less supportive for the CLP. Inflation remains subdued while economic activity indicators have softened, dragged by mining, which pushed BCCh to surprise the market with a large 50bp cut, reversing the hikes seen over the past year.

ING forecasts (NDF)	**1M** 697.00 (698)	**3M** 705.00 (698)	**6M** 700.00 (698)	**12M** 670.00 (698)

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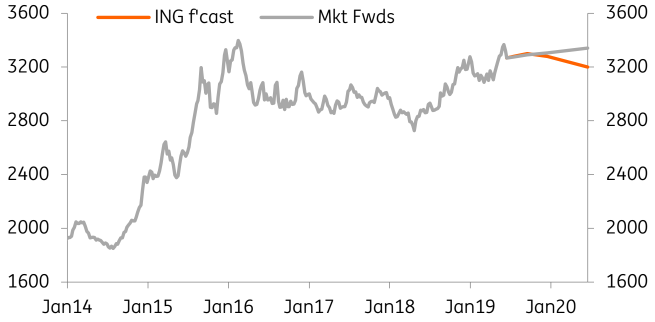
USD/COP

Balance of risks is looking more favourable to the COP

Current spot: 3267.90



Source: Bloomberg, ING

- Perhaps exacerbated by portfolio outflows and the less attractive carry, the COP continues to be especially sensitive to global risk appetite and USD fluctuations generally.
- The currency's underperformance this year was also justified by the sell-off in oil prices seen recently, even though the COP's correlation with oil has fallen sharply in recent months.
- Domestic drivers are more constructive than its peers in the region, which should limit further underperformance. GDP growth is on track to expand near its potential this year while on-target inflation suggests an extended period of neutral monetary policy guidance. Improved growth is also supportive of fiscal accounts, with improved targets limiting downside risk to credit ratings.

ING forecasts (NDF)	**1M** 3280.00 (3275)	**3M** 3300.00 (3292)	**6M** 3280.00 (3305)	**12M** 3200.00 (3341)

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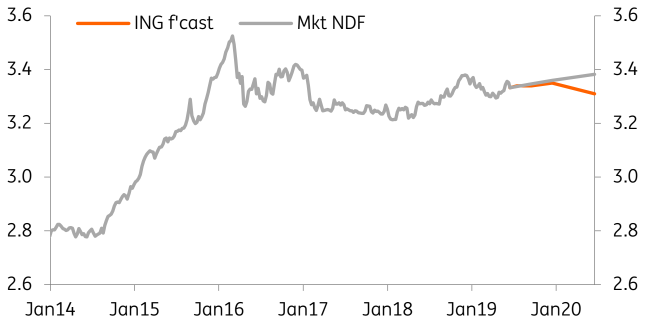
USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.33



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, trading near stability over the past month. Even though it's a small open economy heavily reliant on commodity exports, the currency remains the least affected by the USD move and the risk aversion that affected its peers in the region.
- Eventual positive developments on the US-China trade-war front would add support to the currency, with the USDPEN once again consolidating below 3.30. But the potential for BCRP's FX intervention would likely limit any sustained rally.
- Peru's BCRP should extend the current neutral bias for the policy rate (2.75%) for the foreseeable future amid moderate economic activity and on-target inflation.

ING forecasts (NDF)	**1M** 3.34 (3.34)	**3M** 3.34 (3.35)	**6M** 3.35 (3.36)	**12M** 3.31 (3.38)

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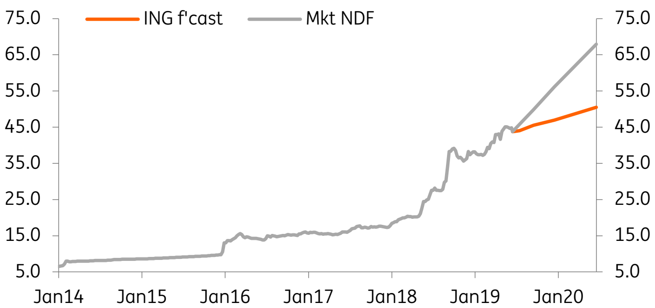
USD/ARS

Presidential race narrows

Current spot: 43.75



Source: Bloomberg, ING

- Investors have reacted well to the latest political developments, which showed both Cristina Kirchner and Mauricio Macri aligning themselves with centrist candidates, in an effort to broaden their support and polarise the race.
- FX intervention and high interest rates should help support local assets but any evidence that the Kirchnerist ticket would win in the October election should weigh on asset prices. The August 11 primaries are the chief near-term catalyst for local assets.
- Beyond that, given Argentina's macro vulnerabilities, prospects for policy changes following the October election should drive asset prices. Risk that locals shift their holdings away from ARS deposits (into hard currency/goods) should be monitored.

ING forecasts (NDF)	**1M** 44.00 (45.78)	**3M** 45.50 (49.92)	**6M** 47.00 (56.14)	**12M** 50.50 (67.94)

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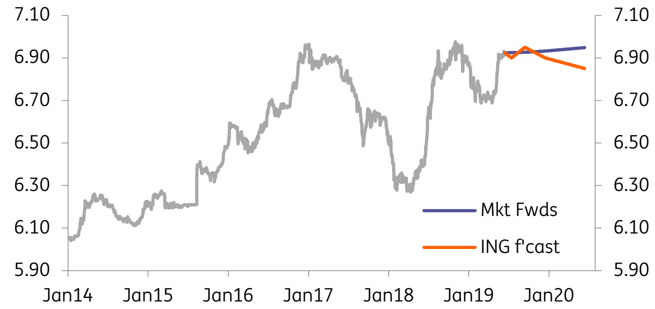
Asia

USD/CNY

USDCNY unlikely to pass 7.0

Current spot: 6.9207



Source: Bloomberg, ING

- Trade tension between China and US has increased, with both sides raising tariff rates on each other's imported goods. We don't expect there will be a trade deal even if President Xi and President Trump meet on the sidelines of the G20 meeting.
- We have revised the USD/CNY and USD/CNH foreacsts to 6.90 by the end of the year because of the increased likelihood of no trade deal.
- But we assign only a very small chance on USD/CNY passing the 7.00 handle as that will create market chaos in China's asset markets, which the government will want to avoid during the trade war.

ING forecasts (FWDs)	**1M** 6.9000 (6.9250)	**3M** 6.9500 (6.9265)	**6M** 6.9000 (6.9323)	**12M** 6.8500 (6.9488)

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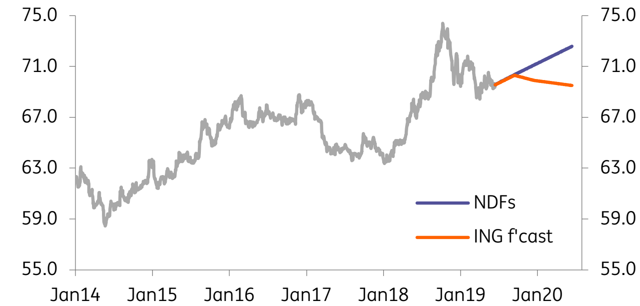
USD/INR

From political to trade uncertainty

Current spot: 69.56



Source: Bloomberg, ING

- The end of the political risk with Prime Minister Modi's return to power for a second term brings the INR back to face the economic reality. And the reality isn't at all encouraging.
- India's GDP growth slowed to a 5-year low of 5.8% in 4Q FY18-19. The elevated political noise and global trade risk probably stalled the recovery in the current quarter, although a low base effect may help. Inflation is creeping up on firmer food and fuel prices.
- In more INR-unfriendly news, the RBI cut rates again at the June meeting. As if that's not enough, President Trump now seems to be moving his trade focus toward India. The USD/INR breaching 70 resistance level in coming months looks more likely than not.

ING forecasts (NDFs)	**1M** 69.80 (69.83)	**3M** 70.30 (70.35)	**6M** 69.90 (71.11)	**12M** 69.50 (72.58)

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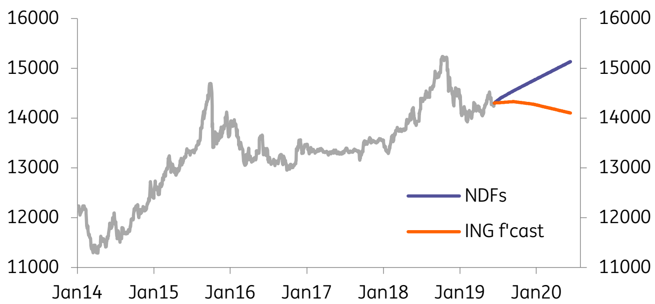
USD/IDR

S&P upgrade and dovish Fed props up IDR

Current spot: 14303



Source: Bloomberg, ING

- The IDR has been under some pressure early on in the trade wars, but with global growth concerns brewing, and the Fed becoming increasingly dovish, foreign flows to emerging markets have picked up, with the IDR one of the main beneficiaries.
- S&P upgraded Indonesia's rating to BBB citing the economy's strong growth potential and the improved political landscape given Jokowi's successful re-election, boosting inflows further.
- After earlier caution over the external balance, Bank Indonesia (BI) deputy governor Waluyo has signalled the central bank's willingness to ease monetary policy with BI gauging the proper timing to reverse course after hiking aggressively in 2018. This has tempered the recent appreciation spell of the IDR.

ING forecasts (NDFs)	**1M** 14310 (14400)	**3M** 14330 (14548)	**6M** 14280 (14748)	**12M** 14100 (15138)

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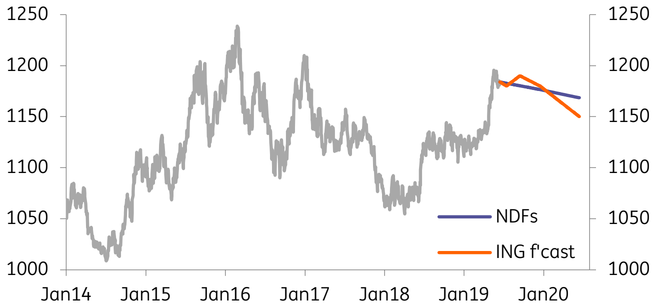
USD/KRW

KRW – the trade war's whipping boy

Current spot: 1184



Source: Bloomberg, ING

- The KRW remains the region's worst performing currency year to date, and by some considerable margin, hit both by the trade war and the global tech slump – both still in full swing. Taiwan, in a similar position with respect to trade and tech, is also down, but not as much.
- Not helping matters in Korea has been the BoK's slow response to the economic downturn, though now that may be beginning to change.
- We continue to anticipate some easing from the BoK, perhaps as soon as the 18 July meeting. Once they get going, this is unlikely to be the only easing this year. But it is unlikely to be too damaging to the KRW, as ultimately it is what the economy needs.

ING forecasts (NDFs)	**1M** 1180 (1183)	**3M** 1190 (1180)	**6M** 1180 (1176)	**12M** 1150 (1168)

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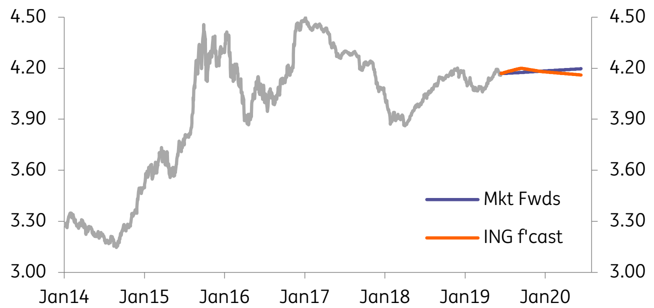
USD/MYR

Malaysia under US scrutiny for currency manipulation

Current spot: 4.1685



Source: Bloomberg, ING

- The selling pressure on the MYR since March has ended this month as firmer activity growth revived positive sentiment towards this currency amid ongoing emerging FX selloff.
- Malaysia falling under the US Treasury's monitoring list for currency manipulators might have been an extra boost to the MYR this month. We don't see this as providing an imminent threat of US sanctions, however.
- April exports and manufacturing growth surprised on the upside, supporting our view that GDP growth will accelerate in 2Q19. The favourable base effect will support growth in the rest of 2019, which means the BNM will have no strong reason to ease again.

ING forecasts (FWDs)	**1M** 4.1800 (4.1703)	**3M** 4.2000 (4.1748)	**6M** 4.1800 (4.1826)	**12M** 4.1600 (4.1965)

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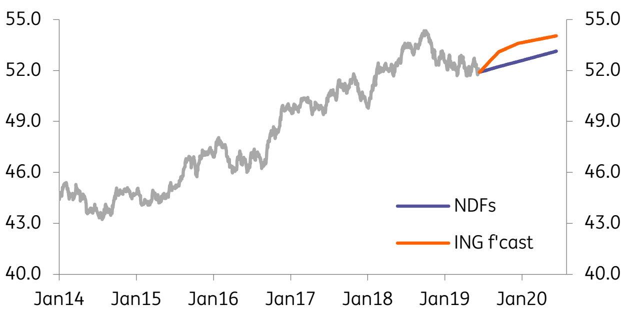
USD/PHP

Peso stays stable despite dovish BSP

Current spot: 51.90



Source: Bloomberg, ING

- USD/PHP has generally remained steady despite a very dovish central bank (BSP). BSP Governor Diokno followed up the policy rate cut with a reduction to the reserve requirement ratio (RRR).
- USD/PHP also received a boost from foreign portfolio flows, which recently showed some inflows after several weeks of outflow given the prospects for the Fed dot plots.
- The 2019 budget was finally signed which should help provide a boost for growth but may also boost imports as government construction projects resume. A projected widening in the trade gap should help offset the recent appreciation pressure of the Peso, all the more with BSP likely to cut rates further in 2H19.

ING forecasts (NDFs)	**1M** 52.30 (52.00)	**3M** 53.10 (52.21)	**6M** 53.60 (52.52)	**12M** 54.04 (53.12)

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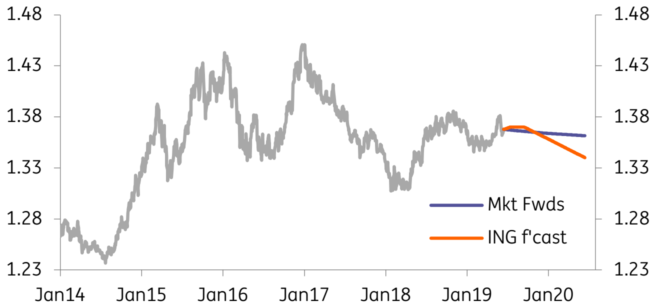
USD/SGD

Middle of the road **Current spot: 1.3678**



Source: Bloomberg, ING

- The SGD is back in the middle of the 1.35-1.39 range vs the dollar that is has cycled through since mid-2018 and year to date it is virtually unchanged versus the USD, sitting in the middle of the Asian pack.
- With US rates poised to fall in the coming months, the SGD is likely to come under appreciation pressure. We may watch the 3M SIBOR fixing for some evidence that markets are being prepared for a scaling back of MAS policy. So far, rates are holding steady.
- From October, we anticipate the band appreciation path being scaled back, to about a 1% annual rate.

ING forecasts (FWDs)	**1M** 1.3700 (1.3671)	**3M** 1.3700 (1.3659)	**6M** 1.3600 (1.3641)	**12M** 1.3400 (1.3616)

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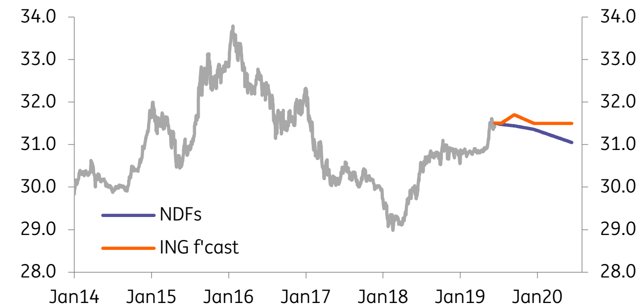
USD/TWD

Squeezed between Mainland China and US **Current spot: 31.50**



Source: Bloomberg, ING

- The Taiwan economy has been squeezed between Mainland China and the US technology war. Taiwan technology companies are searching for ways to continue doing businesses with both Mainland China and US tech companies after the US included Huawei in its "entity list" and China is creating its own "unreliable entity list".
- The technology sector is hugely important for Taiwan's imports and exports and related manufacturing activities. But the central bank has limited room to lower interest rates to boost the economy as the policy rate is already at 1.375%.
- Given the deterioration of the economy, we revise our view on the TWD to weaken further.

ING forecasts (NDFs)	**1M** 31.50 (31.47)	**3M** 31.70 (31.44)	**6M** 31.50 (31.35)	**12M** 31.50 (31.03)

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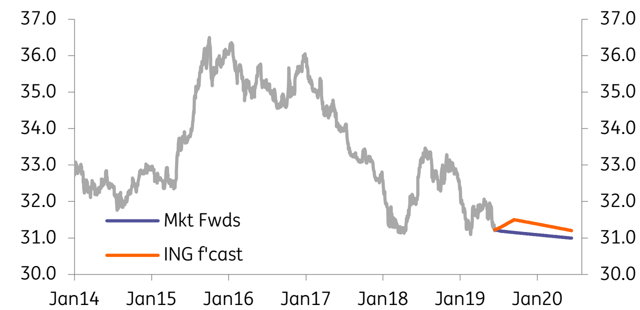
USD/THB

The central bank joining in the easing wave **Current spot: 31.22**



Source: Bloomberg, ING

- The THB maintains its spot as the best-performing Asian FX with over 4% year-to-date gain against the USD. This is despite a significant jump in global trade uncertainty since May.
- The political uncertainty is almost over with the pro-junta leader Prayuth Chan-Ocha back as prime minister for the second term. This returns the market focus back on the economy where the strong external payments position outweighs the weak domestic economy in pushing THB strength further into the year.
- With sub-3% GDP growth and low inflation, the case for the BoT reversing its late-2018 rate hike has become stronger, in our view. We expect a 25bp BoT rate cut at the 26 June meeting.

ING forecasts (FWDs)	**1M** 31.30 (31.20)	**3M** 31.50 (31.16)	**6M** 31.40 (31.11)	**12M** 31.20 (31.01)

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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.12	1.12	1.12	1.15	1.17						
EUR/JPY	121.8	120.96	117.60	118.45	117.00	USD/JPY	108.34	108	105	103	100
EUR/GBP	0.89	0.90	0.92	0.92	0.88	GBP/USD	1.26	1.24	1.22	1.25	1.33
EUR/CHF	1.12	1.12	1.10	1.12	1.15	USD/CHF	1.00	1.00	0.98	0.97	0.98
EUR/NOK	9.77	9.70	9.80	9.80	9.50	USD/NOK	8.69	8.66	8.75	8.52	8.12
EUR/SEK	10.64	10.80	11.00	10.80	10.60	USD/SEK	9.46	9.64	9.82	9.39	9.06
EUR/DKK	7.467	7.470	7.470	7.470	7.470	USD/DKK	6.64	6.67	6.67	6.50	6.38
EUR/CAD	1.50	1.49	1.48	1.50	1.47	USD/CAD	1.338	1.33	1.32	1.30	1.26
EUR/AUD	1.63	1.62	1.65	1.67	1.63	AUD/USD	0.69	0.69	0.68	0.69	0.72
EUR/NZD	1.73	1.72	1.78	1.80	1.77	NZD/USD	0.65	0.65	0.63	0.64	0.66
EMEA											
EUR/PLN	4.26	4.27	4.28	4.30	4.31	USD/PLN	3.79	3.81	3.82	3.74	3.68
EUR/HUF	322.0	325.00	325.00	325.00	325.00	USD/HUF	286.4	290	290	283	278
EUR/CZK	25.53	25.7	25.8	25.9	26.3	USD/CZK	22.71	22.9	23.0	22.5	22.5
EUR/RON	4.72	4.75	4.77	4.85	4.87	USD/RON	4.20	4.24	4.26	4.22	4.16
EUR/HRK	7.41	7.40	7.40	7.45	7.42	USD/HRK	6.59	6.61	6.61	6.48	6.34
EUR/RSD	117.9	118.0	117.9	118.0	117.5	USD/RSD	104.9	105.4	105.3	102.6	100.4
EUR/RUB	72.33	73.4	75.0	75.9	79.6	USD/RUB	64.33	65.5	67.0	66.0	68.0
EUR/UAH	29.73	30.2	30.8	32.2	35.7	USD/UAH	26.45	27.00	27.50	28.00	30.50
EUR/KZT	431.7	420.0	425.6	437.0	444.6	USD/KZT	383.9	375	380	380	380
EUR/TRY	6.61	7.06	7.00	7.13	7.43	USD/TRY	5.88	6.30	6.25	6.20	6.35
EUR/ZAR	16.59	16.8	17.1	17.0	16.4	USD/ZAR	14.76	15.00	15.25	14.75	14.00
EUR/ILS	4.05	4.03	4.03	4.03	3.98	USD/ILS	3.60	3.60	3.60	3.50	3.40
LATAM											
EUR/BRL	4.36	4.14	3.81	4.14	4.33	USD/BRL	3.88	3.70	3.40	3.60	3.70
EUR/MXN	21.53	21.5	21.8	22.3	22.8	USD/MXN	19.15	19.20	19.50	19.40	19.50
EUR/CLP	784.51	781	790	805	784	USD/CLP	697.73	697	705	700	670
EUR/ARS	49.19	49.28	50.96	54.05	59.09	USD/ARS	43.75	44.00	45.50	47.00	50.50
EUR/COP	3674.48	3674	3696	3772	3744	USD/COP	3267.90	3280	3300	3280	3200
EUR/PEN	3.76	3.74	3.74	3.85	3.87	USD/PEN	3.33	3.34	3.34	3.35	3.31
Asia											
EUR/CNY	7.78	7.73	7.78	7.94	8.01	USD/CNY	6.92	6.90	6.95	6.90	6.85
EUR/HKD	8.80	8.74	8.75	8.99	9.13	USD/HKD	7.83	7.80	7.81	7.82	7.80
EUR/IDR	16158	16027	16050	16422	16497	USD/IDR	14325	14310	14330	14280	14100
EUR/INR	78.60	78.2	78.7	80.4	81.3	USD/INR	69.80	69.80	70.30	69.90	69.50
EUR/KRW	1334.81	1322	1333	1357	1346	USD/KRW	1185.18	1180	1190	1180	1150
EUR/MYR	4.70	4.68	4.70	4.81	4.87	USD/MYR	4.17	4.18	4.20	4.18	4.16
EUR/PHP	58.68	58.6	59.5	61.6	63.2	USD/PHP	52.02	52.3	53.1	53.6	54.04
EUR/SGD	1.54	1.53	1.53	1.56	1.57	USD/SGD	1.37	1.37	1.37	1.36	1.34
EUR/TWD	35.56	35.3	35.5	36.2	36.9	USD/TWD	31.51	31.5	31.7	31.5	31.5
EUR/THB	35.08	35.1	35.3	36.1	36.5	USD/THB	31.20	31.3	31.5	31.4	31.2

Source: Bloomberg, ING

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